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SUBJECT: ITALY AND EGYPT RENEW DEBT SWAP AGREEMENT

¶1. On June 3, 2007, Egypt and Italy renewed their "Debt for Development Swap" agreement which converts bilateral debt owed to Italy into Egyptian pounds to be used for development projects. The program, inaugurated in 2001, cancels Official Development Assistance (ODA) bilateral debt in exchange for equivalent GOE deposits into a fund at the Egyptian Central Bank. The 2001 Agreement between Italy and Egypt was signed for approximately \$149 million over a five-year period, and the 2007 agreement was signed for a further \$100 million over a second five-year period. Treasury Attache spoke with Italian econoff who noted that 80 percent of the funds from the 2001 swap have been used, and he estimates that the rest of the fund will be spent by the end of 2007. The Italian econoff also stated that despite the relatively small amount of the swap, the "principal and symbolism" of the agreement are equally important.

¶2. The Italian Debt for Development Swap program is administered by the GOE's Ministry for International Cooperation and is overseen by a Management Committee (MC). Italy's Ambassador and Minister for International Cooperation, Faiza Aboul Naga, sit on the MC, and a Technical Support Unit provides subject-matter expertise, monitoring, and evaluation of the development projects. The MC meets several times a year and ensures that development programming is effectively administered and implemented. Projects funded under the agreement focus on a variety of development projects, including: human development, poverty alleviation, and environmental improvement.

¶3. Paris Club rules allow swaps of ODA. Creditors are required to inform other members of any swaps. The USG currently does not have the required legislative authority or appropriations to conduct a debt swap with Egypt. GOE debt to the USG is approximately \$4 billion, owed to USAID and USDA.  
JONES